



"Section 9006" Guaranteed Loan Program: *\$9006 Rural Energy*

Program Goal

Supports "gap" financing for *rural small businesses & agricultural producers* to purchase & install or improve renewable energy systems (RES), and energy efficiency improvements (EEI)

☞ *The \$9006 guaranteed program is lender-driven. USDA guarantees the loan rather than lending directly. A commercial lender seeks the guarantee, and, if approved, it makes (and services) the loan.*

"Gap" Financing

A \$9006 guaranteed loan can finance up to 50% of total project costs for RES or EEI energy projects.

The \$9006 guaranteed loan may be in a "**piggyback**" junior lien position if collateral is adequate.

A \$9006 guaranteed loan may be used in concert with a \$9006 grant, but total \$9006 assistance can never exceed 50% of the total project cost.

Type of Assistance

Federal guarantee for lenders on loans for eligible energy projects:

- » 85% (maximum) guarantee on loans up to \$600,000
- » 80% (maximum) guarantee on loans from \$600,000-\$5 million
- » 70% (maximum) guarantee on loans from \$5-10 million

Lender Benefits

There is an active secondary market for \$9006 guarantees (e.g., Farmer Mac II and SBA markets)

The guaranteed portion of the loan is protected against loss by a Federal guarantee.

The guaranteed portion of the loan does not count against lending limits.

\$9006 guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Lenders use their own forms, loan documents, and security instruments.

Size of Loans

\$5,000 minimum. Up to \$10 million.

Loans up to \$600,000 are processed using a simplified application submittal – "One-Doc".

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender & business

Fixed or variable (but may not vary more often than quarterly)

Term: Working capital – 7 years maximum

Equipment – 20 years maximum (not to exceed useful life of collateral)

Real estate – 30 years maximum (not to exceed useful life of collateral)

Structure: Balloons are not permitted. Principal payments may be deferred till the project is operating.

Fees: Lender's reasonable and customary fees okay -- negotiated by lender & business

USDA charges a one-time guarantee fee equal to *1% of the guaranteed amount* and an annual servicing fee of *1/8% of the principal balance owing as of December 31*.

Authorized Use of Loan Funds

Land, real estate improvements/retrofitting, equipment, working capital – for new or existing rural energy projects.

Energy audits, technical reports, feasibility study costs, other fees including loan fees & costs.

Loan Limitations

\$9006 projects must be financially feasible & have established technical merit. Only commercially-available or pre-commercial technologies can be financed. No experimental or unproven systems.

The replacement of an existing facility in order to achieve greater energy efficiency may be financed only when retrofitting cannot provide as great an energy benefit, as demonstrated in an energy audit.

Ineligible purposes include: residential projects, debt refinancing; lines of credit; agricultural tillage equipment; used equipment (though remanufactured is OK); vehicles; application preparation fees

Construction projects:

A §9006 guarantee may be issued before construction if the lender certifies that the development work will be completed in accordance with the plans and specifications.

The percent of guarantee may be reduced if the guarantee is issued before project completion.

Construction loan funds should not be advanced until USDA has approved the project.

Lender Eligibility

Most regulated lenders – Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; Savings & Loan or Building & Loan Association; credit union; or insurance company

Other lenders with commercial lending experience and financial strength may also be approved.

Borrower Eligibility

The project must be in a rural area – i.e., outside 50,000+ cities & metropolitan statistical areas.

Most types of enterprises qualify, new or existing, provided they are either:

- » Small businesses – as defined by SBA at <http://www.sba.gov/size/summary-what-is.html>
- » Agricultural producers – individuals or legal entities which receive at least 50% of their gross income from agriculture (crops, livestock, forestry products, hydroponics, nursery, & aquaculture). The SBA “small business” standard does not apply to agricultural producers.
- » Utilities are typically excluded unless they provide service to rural consumers on a cost-of-service basis without support from public funds or subsidy from the Government authority establishing the district. Utilities must also be independent of government control.
- » *Nonprofits, tribes, and public bodies are ineligible.*

Proprietorship, partnership, corporation, LLC, trusts, & cooperative organizational structures are eligible.

Majority ownership must be held by US citizens or permanent residents.

The borrower must own & manage the facility (though its operations may be contracted to a 3rd party)

Underwriting and Security Requirements

The proposed operation must have realistic repayment ability, as further documented by:

- » A technical report, professionally-prepared and detailing all aspects of the project.
The technical report must be done by a licensed professional engineer (PE) on RES projects costing over \$200,000 and on EEI projects costing over \$400,000. The report must be peer-reviewed by another PE if the project costs more than \$1.2 million.
- » A business-level feasibility study by a recognized independent consultant – on renewable energy generation proposals costing over \$200,000. (This is not required for energy efficiency proposals)

The business and its owners must have a good credit history.

The borrower must provide an equity contribution equal to:

- » 25% or more of the project cost – for loans over \$600,000
- » 15% or more of the project cost – for loans up to \$600,000
- » The market value of real estate equity pledged as collateral is counted toward this requirement.

There must be adequate collateral. Junior liens are acceptable.

- » Real estate – using 80% or less of the appraised value
- » Equipment – using 60-80% or less of the appraised value

Business interruption insurance is required – for loans over \$200,000

Personal/corporate guaranties – normally from all proprietors, partners (except limited partners), or major shareholders (i.e., all those with a 20%-or-greater interest)

Demonstrated financial need and inability to get credit elsewhere is *NOT* a requirement.

Application Process

Lender & business submit a *joint* preapplication to USDA, indicating a willingness to make the loan.

USDA meets with all parties at the project site and makes a preliminary determination of project acceptability, normally within 15 days.

Lender & business submit their complete application, after which approval takes less than 60 days.

USDA issues a conditional commitment, approving the guarantee subject to conditions.

Loans up to \$5 million are approved locally; larger ones are approved in Washington, D.C.

The lender closes the loan and, after meeting USDA's conditions, requests the guarantee.

USDA issues the guarantee after verifying that all conditions have been met.

More information at: <http://www.rurdev.usda.gov/or/rbs.htm> **or contact:**

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